



ITEM P2
DATE 11/10/04
STUDY SESSION

City Council Report

Date: November 8, 2004
To: City Council
Through: Mike Hutchinson
From: Debbie Spinner, City Attorney
Subject: City's Property and Liability Insurance Coverage

Purpose and Recommendation

The purpose of this report is to provide the Council with information on the cost of renewing the City's annual property and liability insurance coverage. The renewal date for the City's annual property insurance coverage is Monday, November 22, 2004. The City Attorney staff recommends that Council approve the purchase of insurance coverage as follows:

- Purchase a property insurance policy from Hartford Fire Insurance Company for up to \$165,000,000 in property insurance. The cost is \$294,303. This is an increase of \$1,510 over last year.
- Purchase a liability insurance policy from Munich-American Reinsurance Company (written through their wholly owned subsidiary Princeton Excess and Surplus Lines Insurance Co. having the highest financial rating of A+XV) in the amount of \$10,000,000 excess of a \$3,000,000 self-insured retention (S.I.R). The cost is \$366,538. This is an increase of \$102,000 over last year.
- Purchase an additional \$5,000,000 in excess liability insurance from Clarendon America Insurance Co. The cost is \$92,295. This is an increase of \$15,418 over last year.
- Purchase an additional \$10,000,000 in excess liability insurance from Arch Specialty Insurance Co. The cost is \$97,425. This is an increase of \$19,913 over last year.

If Council accepts this recommendation, the City's liability coverage will remain at \$25,000,000 excess of the \$3 million S.I.R. and the property insurance will renew at the same limits and the same rate as last year.

Attached is a table summarizing the changes from 2003/2004 to 2004/2005.

Background and Discussion

As with most insurance decisions, we are trying to obtain the best combination of coverage, risk, and price. Reflective of the still current restrictive insurance market, Mesa's current agent, Arthur J. Gallagher & Co., approached the entire worldwide marketplace to obtain the best quotes possible in order to offer this renewal to us. Staff believes that this is the best renewal package available at this time.

Property Coverage:

The total value of all of the City's property, including mobile equipment, is approximately \$432,500. Staff recommends purchasing a policy with a total loss per occurrence limit of \$165,000,000. The cost for this coverage is \$294,303. This is \$1,510 above last year's cost for the same coverage.

Council can choose to decrease this maximum loss per occurrence to \$100,000,000. This will decrease the premium from \$294,303 to \$268,936. Given the many different activities the City participates in, staff recommends the more comprehensive coverage.

This policy carries a \$50,000 deductible.

Liability Coverage:

Mesa's current liability structure is as follows: self-insured retention (S.I.R.): \$3,000,000; excess insurance of \$10,000,000; plus additional excess insurance of \$15,000,000 in two layers for a total coverage of \$25,000,000. Total coverage was reduced after 9-11-01 due to lack of capacity of the excess insurance industry and this remains the total coverage available to the City. Last year's total premium for liability coverage was \$417,528.

The recommended premium to replace these same coverages for the 11/22/04 to 11/22/05 period will be \$556,888.

Council can choose to reduce the City's S.I.R. from \$3,000,000 to \$2,000,000. This will cost an additional \$175,524 in the premium for the first layer of excess. In addition, since the premiums for the next two layers of excess liability insurance are based on the premium for the first layer, we can expect premium increases in the next two levels of \$20,000 to \$30,000. Therefore, to reduce the City's S.I.R. to \$2 million for the next year the total liability insurance premiums would increase from \$556,888 to about \$752,500.

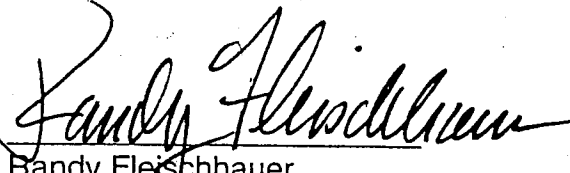
Staff does not recommend this option because of the additional up front premium cost but it is available and can be considered during the decision making process.

Alternatives


- (1) Not to purchase any private insurance;
- (2) To reduce the property coverage from \$165,000,000 to \$100,000,000 per occurrence for a reduction in cost of \$25,367; or
- (3) To purchase additional insurance to reduce the City's S.I.R. to \$2 million per loss, for an additional cost of approximately \$198,000.

Fiscal Impact

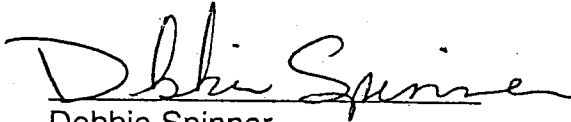
The cost of purchasing the recommended property coverage is \$294,303. The cost of the recommended liability coverage is \$556,888. Payment of these premiums will be paid through the Property and Public Liability Trust Fund.




Randy Fleischhauer
Assistant City Attorney



Mark Ishikawa
Deputy City Attorney



Debbie Spinner
City Attorney



Mike Hutchinson
City Manager

COVERAGE*	2003 to 2004	2004 to 2005
AmRE Primary Excess Liability	\$262,509	\$366,538
Clarendon Excess Layer	\$ 77,507	\$ 92,925
Arch Specialty Excess Layer	\$ 77,512	\$ 97,425
Property	\$292,793	\$294,303
Total Premium:	\$710,321	\$851,191

* - Based on 2004-05 Exposures for Comparison Purposes

INSURANCE PREMIUMS

	Actual 1997-98	Actual 1998-99	Actual 1999-00	Actual 2000-01	Actual 2001-02	Actual 2002-03	Actual 2003-04	Actual 2004-05
City S.I.R. Level	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$3,000,000	\$3,000,000	\$3,000,000
Liability Insurance	198,500							
Excess Liability:		178,650	130,133	151,363	196,361	182,228	\$262,509	\$366,538
2nd Layer		55,000	50,000	43,675	31,250	106,000	\$77,507	\$92,925
3rd Layer		10,000	19,000	30,000	50,000		\$77,512	\$97,425
4th Layer		10,000						
Excess Property	64,614	64,614	61,625	88,431	175,000	222,000	\$292,793	\$294,303
Boiler & Machine		6,476	6,476	6,865	7,895	9,079	\$13,924	\$12,880
Airport Liability	12,000	12,000	15,000	15,000	17,656	32,134	\$35,640	
Aircraft Liability	111,024	111,024	103,220	105,218	112,211	141,974	\$213,371	
Mesa City Plaza								
Primary	14,568	9,732	14,013	15,472				
Excess	5,000	10,574	7,950	7,950				
Add 66 W. Main	280	2,700	Incl.				N/A	N/A
Mesa Musical Theater	593	874	803	803	862	956	N/A	N/A
Bonds					9,912	2,000		
Total	406,579	471,644	408,220	464,777	601,147	696,371	\$973,256	\$864,071

* July, 2005 renewal date.

Title VI Review of Mesa Bus Routes*

Route		% Minority	% Below Poverty
30 (East of Tempe Border)	University Drive	26.3%	10.9%
45 (East of Tempe Border)	Broadway	31.9%	12.2%
61 (East of Tempe Border)	Southern Avenue	35.7%	9.7%
77 (East of Tempe Border)	Baseline Road	41.9%	10.3%
96	Dobson Road	38.6%	12.7%
104 (North of Chandler Border)	Alma School Road	40.1%	13.5%
108 (North of Gilbert Border)	Elliot/Power	15.3%	5.4%
112 (North of Chandler Border)	Country Club	42.0%	14.1%
120	Mesa Drive	42.8%	14.4%
128	Stapley	32.7%	10.8%
136 (North of Gilbert Border)	Gilbert Road	25.5%	8.5%
531 (Mesa Boarding Area)	W. Mesa Express	45.4%	14.5%
532 (Mesa Boarding Area)	E. Mesa Express - McKellips	16.2%	6.4%
533 (Mesa Boarding Area)	E. Mesa Express - Power Rd.	14.4%	6.4%
Red (East of Tempe Border)	Main Street	42.5%	15.1%
Regional Comparison			
County		33.8%	11.6%
Regional Bus Service Area		35.6%	12.1%

*Source: 2000 US Census.

City of Mesa
Estimated Transit Program Cost Avoidance for FY05/06

Fixed Route - Estimated Net Cost per Revenue Mile

Operating Contract	FY04/05	FY05/06	FY05/06 Estimated Cost at Other Rates
MV-RPTA	\$3.412	\$2.886	\$4,906,425
ATC-RPTA	\$3.127	-	-
ATC-Tempe **	\$3.257	\$3.355	\$5,703,248
ATC-Phoenix **	\$4.869	\$5.016	\$8,526,851
Laidlaw **	\$3.416	\$3.518	\$5,981,200
Mesa Cost	\$3.137	\$2.886	\$4,906,425

** FY05/06 costs estimated based upon FY04/05 costs plus 3% inflation

In FY04/05 several contract transitions will take place. The combining of contracts will result in a "blended" mileage rate for Mesa services in FY04/05. This "blended" rate occurs because Mesa will purchase service from 5 different contract operations for varying lengths of time during the fiscal year. The three most significant contract changes that will affect Mesa's mileage rate during FY04/05 are:

ATC-Mesa to MV-RPTA in September 2004

Express service from ATC-Phoenix to MV-RPTA in September 2004

ATC-RPTA to MV-RPTA in April 2005

In addition to the direct operational costs, the overhead expenses for the various contracts will be changing throughout the fiscal year due to the changing relationships between the agencies responsible for program administration. Beginning in FY04/05, the cost for utilities will be included in the operational costs. Utilities had previously been in a different line item.

In FY05/06 Mesa's cost per mile will drop significantly below the FY04/05 cost. This is due to the final consolidation of all services, except Route #45 Broadway, into the MV-RPTA contract. Route #45 will continue to be purchased from the ATC-Tempe contract during FY05/06.

The unification of services under one primary provider will result in an overall lower gross cost due to the efficiencies realized by combining both operational and overhead expenses.

Estimated Cost Avoidance for FY05/06

Utilities	\$139,000
Facility Maintenance	\$375,000
Staffing	\$130,000
Lease Payment from RPTA	\$350,000
Estimated Contract Avoidance	\$670,000
Total	\$1,664,000

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